

**IMPLEMENTATION OF THE EXECUTIVE DIRECTORATE OF REVENUE (DEI)**

**(HO-0137)**

**EXECUTIVE SUMMARY**

**BORROWER AND GUARANTOR:** Republic of Honduras

**EXECUTING AGENCY:** Ministry of Finance through the Dirección Ejecutiva de Ingresos (DEI) [Executive Directorate of Revenue]

**AMOUNT AND SOURCE:**

IDB (FSO):	US\$3,000,000
Local contribution:	US\$ 450,000
Total:	US\$3,450,000

**FINANCIAL TERMS AND CONDITIONS:**

Amortization period:	40 years
Execution period:	36 months
Disbursement period:	40 months
Interest rate:	1% and 2%
Inspection and supervision:	1%
Credit fee:	0.5%

**OBJECTIVES:** The general objective consists in assisting the Government of Honduras to consolidate and continue the process of modernizing its tax administration. The intent is to also achieve the following specific objectives: (i) support the process of effective integration between the customs and domestic tax areas, with a new structure and the application of the DEI personnel rules; (ii) specifically strengthen the domestic taxation area; (iii) increase the professional and technical level of employees through permanent and specific training plans; (iv) promote an increase in collections equivalent to 2% of GDP; and (v) modernize the information technology equipment and applications and create the necessary communications infrastructure to optimize the use of the new technologies.

**DESCRIPTION:** The project will be executed in two phases. Upon completion of the first, the tax administration must be operating to the satisfaction of the authorities of the Finance Ministry and the Bank. The second will be conditional upon the results of the evaluation that will take place to determine satisfactory operations; specific indicators have been developed for this purpose (paragraph 3.3). The activities scheduled for the first phase cover all areas of administration: regulatory, organization, training, management procedures, collections, audits, information technology and communications. It will have an estimated cost of US\$2.5 million.

The second phase, with a cost of US\$675,000 plus US\$229,000 for contingencies, proposes improving the taxation services, with particular emphasis on facilitating electronic access to tax and customs information.

**THE PROJECT'S ROLE  
IN THE BANK'S  
COUNTRY AND  
SECTOR STRATEGY:**

The Bank's latest country paper (GN-1876) specifies three primary areas of activity: 1) the development of human capital; 2) increased returns on investment (private and public); and 3) elimination of the financial restrictions on the State produced by the high fiscal deficit and high debt servicing costs. These areas continue to be valid and the proposed technical cooperation program falls fully within the third one insofar as it should contribute to reducing the fiscal deficit by improving tax collections.

**ENVIRONMENTAL AND  
SOCIAL REVIEW:**

The operation has no impact on the environment.

**BENEFITS:**

The project will benefit both the government and the citizens, primarily in the following aspects: (i) effective integration of the management of domestic taxation and customs, which will allow improved use of human and material resources; (ii) consolidation of the achievements of the phases, including those preceding the reduction in the cost of fulfilling fiscal obligations by facilitating and providing incentives for voluntary compliance; and (iii) increase in the number of regular taxpayers.

**RISKS:**

The greatest risk to the project's success would be for it to incur the same problems as the previous operation: deficiencies and delays in preparing the basic infrastructure needed for operation of the tax information system (TIS), insufficient transfer of knowledge to final users of the system and indecision on the part of the authorities in putting into practice the measures needed to promote the changes.

As indicated in paragraph 1.9, the new authorities have resolved the infrastructure problems which delayed installation of the TIS, the DEI has participated actively in the design of this plan of operations, and it feels committed to it, and there is strong political support for the DEI and for this project. In order to reduce this risk as much as possible, the satisfactory application of the DEI personnel rules has been included as a condition precedent to the first disbursement; in addition, the local contribution has been reduced and oriented toward more expedient project execution.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

The first disbursement will be subject to fulfillment of the following conditions to the Bank's satisfaction: (i) appointment of the national cooperation coordinator; (ii) presentation of the draft agreement with the UNDP; and (iii) having satisfactorily initiated implementation of the DEI personnel rules (paragraph 3.19).

**POVERTY-TARGETING:**

In accordance with documents GN-1916 and 1964-2, this operation is not poverty targeted.

**EXCEPTIONS TO  
BANK POLICY:**

See the Procurement section below.

**PROCUREMENT OF  
GOODS AND  
SERVICES:**

Direct contracting from the United Nations Development Programme (UNDP) is recommended (paragraph 3.12), to undertake the engagement of

consultants, procure equipment or engage in other required activities, for purposes of executing the program, in accordance with the Bank's procedures. Such contracting fulfills the stipulations set forth in chapter GS-403 of the Procurement Manual.